68TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
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AMENDMENTS TO RETIREMENT ACT

FEBRUARY 26, 1925.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. LEHLBACH, from the Committee on the Civil Service, submitted the following

REPORT

[To accompany S. 3011]

The Committee on the Civil Service, to which was referred S. 3011, report the same to the House with the recommendation that the bill be passed.

The committee on March 28, 1924, reported H. R. 8202, a bill of substantially the same import. S. 3011 herewith reported differs from H. R. 8202 in the following particulars:

The effective date of the act is made the first day of the second month next following its passage instead of the first day of the fourth month.

The ages for voluntary retirement after 30 years of service are fixed at 65 and 62 years instead of 60 and 55.

Employees of the offices of solicitors of the several executive departments are included within the terms of the act.

In computing the annuities the Senate bill limits the number of years of service used in the computation to 30 years and the average pay to $1,800 and provides as a standard the average pay for the last 10 years of service instead of for the last 5 years.

The Senate bill also makes certain changes in the administration of the retirement system with respect to the duties to be performed by the General Accounting Office and the Civil Service Commission.

The increased liability of the Government under the bill herewith reported over the Government's liability under the present law is estimated at $3,565,793 annually. The increase in contributions by the employees will be $4,311,925 annually.

For the purpose of setting forth the purposes and provisions of the bill, the report accompanying H. R. 8202 is appended.

[House Report No. 394, Sixty-eighth Congress, first session]

The Committee on the Civil Service, to which was referred H. R. 8202, report the same to the House with certain amendments, with the recommendation that the amendments be agreed to and the bill as amended be passed.

The amendments follow:

On page 7, line 18, after the word "annum" strike out the colon and insert the words "or 75 per centum of such average annual salary:"

On page 13, after line 20, insert the following two paragraphs:

"Should an annuitant under the provisions of this section be reemployed in a position included in the provisions of this act, the annuity shall cease, and all rights and benefits under the provisions of this section shall terminate from and after the date of such reemployment.

"This section shall include former employees coming within the provisions of the act of May 22, 1920, who may have been separated from the service subsequent to August 20, 1920, under the conditions defined in this section: *Provided*, That in the case of an employee who has withdrawn his or her deductions from the 'civil-service retirement and disability fund,' such employees shall be required to return the amount so withdrawn with interest compounded at the rate of 4 per centum per annum before he or she shall be entitled to credit for the period of service represented by such deductions."

These amendments simply cure unintentional omissions in the original draft of the bill.

PURPOSE AND SCOPE OF THE RETIREMENT SYSTEM

Congress in 1920 instituted the present retirement system in the classified civil service in order to promote efficiency, eliminate incompetency due to superannuation, and to extend to the employees of the Government that recognition for protracted faithful service which private employers generally extend. Congress did not intend to engage in the insurance business, selling annuities below cost proportioned to the premiums paid.

The principle underlying the Government plan is as follows: Government employees, like other people, should make such provision for old age and the resultant impairment of earning capacity as their circumstances will permit. Hence there is deducted from the salary of each employee a certain percentage which he can well afford to devote to this purpose. This deduction, or contribution, as it is called, is held in trust for the employee and earns interest at the rate of 4 per cent, compounded annually. Moderate annuities are provided, varying with length of service and average salary, but with a maximum limit barely sufficient for maintenance without actual want. Generally the sum contributed by the employee is less than the cost of the annuity, and the difference is paid by the Government. The higher the salary of an employee the greater his own contribution toward his annuity and the less the Government must pay.

These deductions are returned to the employee for whom they are held in trust in every possible contingency, either in annuity payments or in cash. Hence any employee who deems his proposed annuity inadequate may instead of retiring when his term of service is ended by the law, resign, withdraw his contributions with compound interest in cash, and make his own provisions for his closing years.

COST OF RETIREMENT SYSTEM

As the contributions of each employee are returned to him in some form or other, it is obvious that all money paid an annuitant above his own contributions must come from the Treasury. The money of no other employee is available for that purpose. Those already retired and who will retire in the immediate future will have contributed from their salaries during but a small fraction of their time in the service. Hence the Government in their cases must pay not only its normal share of the annuities, but the deficiency occasioned by the lack of full contributions throughout the periods of service upon which the annuities are based. This initial deficiency cost is unavoidable in the inauguration of a retirement system.

Thus far no appropriations for the retirement fund have been made. This has been possible by using the money held in trust for contributors still in active service to pay the annuities of those retired. The money thus borrowed must, of course, be returned with compound interest out of the United States Treasury. As the amount of contributions for the time being exceeds the annuity payments and withdrawals, this system of borrowing is feasible. But the time will come when the cash balance in the retirement fund will be wiped out and the Government will be called upon to return to the fund the money thus borrowed from the contributing employees. The Government liability on this score was as of June 30, 1923, about $12,000,000. It is untrue and silly to assert that the cost of the retirement system is borne wholly by the employees, and to allude to the temporary cash balance in the retirement fund as a surplus.

From the third annual report of the board of actuaries of the retirement fund transmitted to Congress under date of January 19, 1924, and based on valuations made as of June 30, 1921, the following estimate of the cost of the present retirement system is obtained: The normal cost of the present retirement system is 3.82 per cent of the pay roll, of which the employees contribute 2.5 per cent and the remainder, 1.32 per cent, is paid by the Government. The deficiency cost is 2.55 per cent of the pay roll and is wholly borne by the Government. This makes the total present cost of the system 6.37 per cent of the pay roll, of which employees pay 2.5 per cent and the Government is obligated to pay 3.87 per cent. In this estimate the deficiency cost has been apportioned over a period of 30 years in equal annual payments, at the end of which time it will be wiped out. On the basis of the 1921 pay roll, this 3.82 per cent normal cost amounts to $16,505,652, of which the employees pay $10,788,075 and the Government pays $5,717,577; the deficiency cost, 2.55 per cent of the pay roll, to be borne by the Government, amounts to $11,016,630.

The total cost, 6.37 per cent, amounts to $27,522,282; the 2.5 per cent contributed by the employees amounts to $10,788,075 and the percentage of total cost to be paid by the Government, 3.87 per cent, equals $16,734,207.

Under the changes proposed in H. R. 8202, both the normal and deficiency costs are substantially increased. At the time of writing this report information is not as yet available as to the approximate percentage. The bill however, provides for an increase in the contributions by the employees from 2½ to 3½ per cent, which is an increase of $4,315,230 in employees' contributions. This will absorb a very substantial part of the increased cost under the changes proposed. Your committee expects to have definite estimates to present to the House at the time the bill is under consideration.

PROPOSED CHANGES

The ages for retirement, with a provision for two-year extensions, carried in the existing law remain unchanged. There is provided, however, a system of optional retirement after 30 years of service at the age of 60 years for general employees and at the age of 55 years for mechanics, laborers, city and rural letter carriers, post-office clerks, and railway postal clerks.

The classes of employees to whom the act applies have been broadened to include the employees in the Panama Canal Zone, fourth-class postmasters, and civil-service employees who have been promoted to unclassified positions, such as service postmasters.

The method of computing annuities has been changed, resulting generally in a somewhat higher scale of annuities, and the maximum has been raised from $720 per annum to $1,200. The act of 1922 amending the retirement act by providing for deferred annuities or scaled-down present annuities, in cases of involuntary separation after 15 years of service and at the age of 55 years, has been further amended to provide for a certificate of deferred annuity for those involuntarily separated between the ages of 45 and 55.

The change in the method of computing annuities is made applicable to those already on the retired roll.

This bill, furthermore, includes changes in methods of administration relating to disability, retirement regulations, records to be kept, system of accounting, and similar subjects. These changes were prepared by the Bureau of Pensions, charged with the administration of the retirement system, and incorporated in the bill at the request of the Secretary of the Interior.

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